



WEEKLY ECONOMIC DIGEST

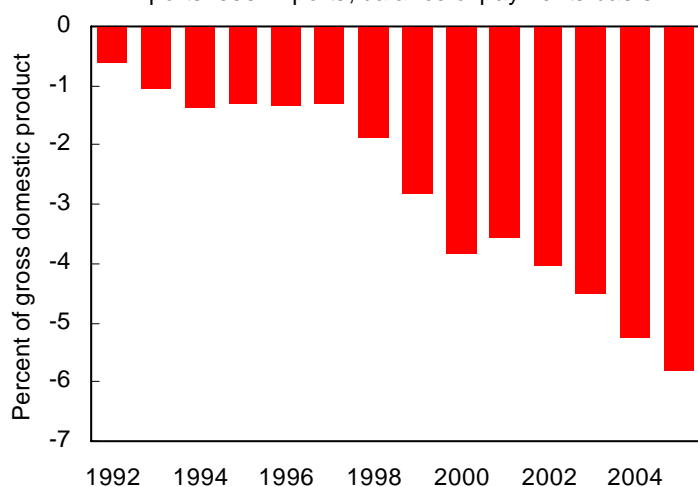


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

February 14, 2006

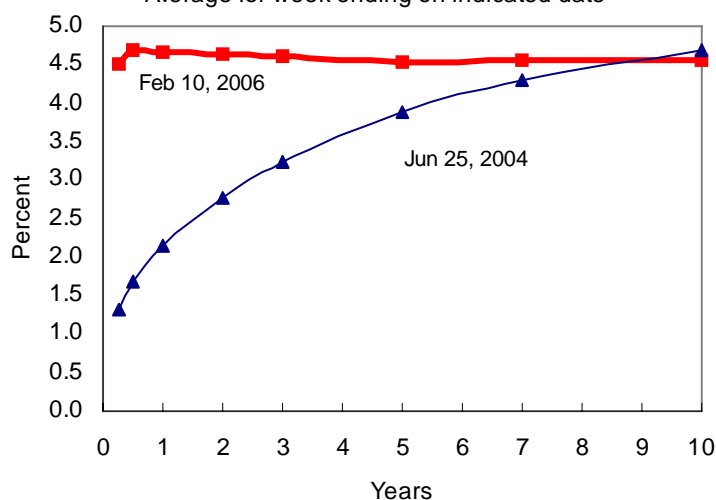
2005 Trade Deficit Is Largest Ever

U.S. Trade Balance in Goods and Services
Exports less imports, balance of payments basis



Source: Census Bureau and Bureau of Economic Analysis,
U.S. Department of Commerce.

Yields on Treasury Securities, by Maturity
Average for week ending on indicated date



Source: Board of Governors, Federal Reserve System.
Note: Yields on Treasury nominal securities at "constant maturity" are interpolated by the U.S. Treasury from the daily yield curve for non-inflation indexed Treasury securities.

- **The trade deficit widened in December despite lower oil imports.** The deficit for international trade in goods and services rose by \$1.0 billion in December to \$65.7 billion. Exports rose by \$2.3 billion but imports rose by \$3.3 billion. December's rise in imports of goods and services was spurred by a 3.5 percent rise in domestic purchases of goods other than oil and related products, the largest gain in 8 months. Imports of petroleum products dropped by 4.5 percent, reflecting a temporary moderation in oil prices in December. However, oil prices rose sharply in January and have remained high.
- **The trade deficit rose to a record level in 2005.** For the year, the trade deficit for goods and services widened to \$725.8 billion. That amount is equal to 5.8 percent of gross domestic product and is the largest annual deficit on record (see top chart). For the large U.S. trade deficit to narrow, exports would have to grow significantly faster than imports for some time. Over the course of 2005, however, imports rose by 13.3 percent while exports rose by only 9.6 percent.
- **Despite warmer weather, high energy prices are likely to produce higher winter heating bills.** Last month was the warmest January on record for the continental United States. However, the average wholesale prices of natural gas and home heating oil were more than a third higher last month than they were a year earlier. As a result, the Department of Energy now forecasts that U.S. households will spend 17.2 percent more on heating costs this winter than they did last winter.
- **Bernanke to testify on monetary policy.** New Federal Reserve Chairman Ben Bernanke will give his first monetary policy testimony to the Congress this week. While short-term interest rates have risen by more than 3 percentage points since the Fed began tightening in mid-2004, there has been little response in the longer-term rates that affect economic activity (see bottom chart).

The Economy at a Glance	Jan	Dec	Nov	Oct	2005 Qtr 4	2005 Qtr 3	2005 Qtr 2	2005 Qtr 1	2005	2004
Economic Activity										
Real GDP (% growth)	—	—	—	—	1.1	4.1	3.3	3.8	3.5	4.2
Industrial Production (% growth)*	n.a.	7.4	10.0	12.7	3.8	1.4	1.6	3.8	3.2	4.1
Capacity Utilization (level, %)*	n.a.	80.7	80.3	79.8	80.2	79.8	79.9	79.9	80.0	78.6
Civilian Unemployment Rate (level, %)	4.7	4.9	5.0	4.9	5.0	5.0	5.1	5.2	5.1	5.5
Housing Starts (thousands)*	n.a.	1933	2121	2051	2035	2101	2044	2083	2066	1950
Real Disposable Personal Income (% growth)	n.a.	5.0	10.0	4.9	7.0	-2.0	0.2	-3.4	1.4	3.4
Retail Sales (% growth)*	n.a.	8.6	10.1	2.6	2.3	6.9	10.8	5.6	7.6	7.3
Personal Saving Rate (level, %)	n.a.	-0.7	-0.2	-0.1	-0.4	-1.8	-0.2	0.5	-0.5	1.8
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	n.a.	-1.2	-7.0	2.4	3.2	5.1	4.2	2.4	3.4	2.7
Core CPI-U Inflation (% growth)	n.a.	2.4	2.4	2.4	2.3	1.5	2.0	2.6	2.2	1.8
Employment Cost Index (% growth)	—	—	—	—	3.2	3.2	2.8	2.8	3.2	3.9
Output per Hour (% growth)	—	—	—	—	-0.6	4.5	2.1	3.2	2.7	3.4
Financial Markets										
T-bill Rate, 3-month (level, %)	4.24	3.89	3.88	3.71	3.83	3.36	2.86	2.54	3.15	1.37
T-note Rate, 10-years (level, %)	4.42	4.47	4.54	4.46	4.49	4.21	4.16	4.30	4.29	4.27
Federal Funds Rate (level, %)	4.29	4.16	4.00	3.78	3.98	3.46	2.94	2.47	3.22	1.35
Dow Jones Industrial Avg (index level)	10872	10828	10695	10324	10616	10544	10382	10648	10548	10317
<p>Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.</p> <p>Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted annual rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.</p> <p>n.a. Denotes that data are not yet available. * Subject to revision over the next week.</p>										

Upcoming Economic Releases:

- **Advance Monthly Sales for Retail and Food Services: January 2006** [Release: Tuesday, February 14]
- **Manufacturing and Trade Inventories and Sales: December 2005** [Release: Tuesday, February 14]
- **Industrial Production and Capacity Utilization: January 2006** [Release: Wednesday, February 15]
- **New Residential Construction: January 2006** [Release: Thursday, February 16]
- **U.S. Import and Export Price Indexes: January 2006** [Release: Thursday, February 16]
- **Producer Price Indexes: January 2006** [Release: Friday, February 17]